

IN THE MATTER OF the Public
Utilities Act, R.S.N., c. P-42 (the “*Act*”)

AND

IN THE MATTER OF a General Rate
Application (the “Application”) by
Newfoundland and Labrador Hydro (“Hydro”)
for approvals of, under Section 70 of the *Act*,
changes in the rates to be charged for the
supply of power and energy to Newfoundland
Power Inc (“NP”), Rural Customers and Industrial
Customers; and under Section 71 of the *Act*,
changes in the Rules and Regulations applicable
to the supply of electricity to Rural Customers.

Parties’ Agreement on Cost of Service and Rate Design Issues

In accordance with the mediation process established in this proceeding, the undersigned consenting Parties have reached agreement regarding the proposed resolution of the following issues in this case regarding cost of service allocation, rate structure and tariff design matters as stated in Section I below. There are a number of additional issues (listed in Section II, below) on which the Parties have not reached agreement. Some of these issues are still under discussion among the Parties, and if additional agreements are reached, they will be presented to the Board by the Parties at the commencement of the Hearing in this Matter.

Issues pertaining exclusively to customers in Labrador were not addressed in this mediation and are reserved for resolution in hearings scheduled to take place in Labrador.

This Agreement pertains to the Parties’ recommendations in this proceeding and does not preclude Parties from advocating alternative positions on the same or similar issues in other

proceedings as they may deem appropriate. The Agreement does not resolve cost of capital, accounting and related revenue requirement issues in this proceeding.

As a result of this Agreement, reached through the mediation process, the Parties consent to the admission in the record of this case of all prefiled testimony and exhibits pertaining to: (1) cost of service allocation; (2) rate structure design; and (3) tariff rules and regulations, without the calling of witnesses for the purpose of cross-examination insofar as such testimony and exhibits relate to the issues resolved. The consenting Parties recommend that the Board make its determination on these issues based on the Parties' prefiled testimony and exhibits and the Parties' agreed upon proposed resolution of these issues as stated in this Agreement.

I. Issues on Which All Parties Agree¹

- a. Hydro's cost of service (COS) study filed in this proceeding is in general compliance with Board Orders, specifically the June 7, 2002 Order No. P.U. 7 (2002-2003), regarding the use of embedded cost of service studies as a guide in determining the revenue requirement increases or decreases to be applied to each class.
- b. Hydro Place costs should be assigned to all systems as proposed by Hydro.
- c. General plant assets should be functionalized on the basis of direct generation, transmission, distribution and customer expenses rather than plant ratios.
- d. The statement preparation fee should be eliminated from Rural Customers' rates.

¹ The thirty issues identified and addressed by the Parties in this Mediation were originally listed and designated "a" through "dd." These same designations have been retained here for ease of reference by the Parties even though the original listing has now been broken into two categories and one issue pertaining to Labrador matters has been dropped from the Mediation.

- e. The Rural Customers name change fee should be reduced from \$14.00 to \$8.00.
- f. The Rural Customer reconnection fee should be extended to apply to requests for reconnection following a request by a landlord to disconnect.
- h. G.S.2.3 and G.S.2.4 customers on the Isolated Systems should be consolidated into the G.S.2.2 rate class.
- i. The proposed three-year phase-in of the demand/energy rate for Rural General Service customers should be implemented, including the elimination of the lifeline block for these customers.
- j. Hydro's Municipal Taxes and Board Assessments should be allocated based on revenues.
- r. The appropriate hydraulic data stream for both hydraulic production projections and RSP calculations is long term. The Parties agree that Hydro has properly filed its case using the 30-year record at this time. The Board may consider using the full historic hydraulic data flow record in Hydro's next GRA after Hydro addresses discrepancies identified in the Acres Island Study and Parties have had an opportunity to comment thereon.
- v. The customer class load forecasts used to allocate Hydro's demand costs should be reviewed and approved (or modified) by the Board based on an evidentiary record.

- w. Industrial Customers (“IC”) demand charges for firm power should be applied to forecasted firm demand (“Power on Order”).
- y. Hydro’s current three block Domestic Diesel rate structure should be replaced with a two block structure with the first block equal to the Alternative Lifeline and the second block set so as to maintain revenue neutrality. Parties further suggest that, before its formal acceptance of this proposal, the Board seek comment on this matter from affected customers during the public participation days in this proceeding.
- z. Hydro will work with the CA to redesign its rural customer survey to gather information on customer valuation of service quality versus the costs incurred to improve and maintain service quality, with the results to be reported to the Board in time for incorporation in Hydro’s 2004 customer survey.
- aa. Hydro will propose a peer group of utilities and measures upon which to compare its performance not later than six months following the date of the Board Order in this proceeding. Upon approval thereof, Hydro will collect and report such measures for itself and the peer group annually beginning in 2005.
- cc. Parties request that the Board prepare or obtain a report on Performance Based Regulation (PBR) alternatives for Hydro and NP, with input solicited from all interested stakeholders prior to finalization of the Report, and opportunity for comment and discussion in considering the final Report.

- dd. Hydro will adjust the Rural Rate Alteration Component of the RSP based on its projection of the 5-year phase-in of Labrador rates and the revenue credit available from secondary energy sales to CFB Goose Bay.

II. Issues on Which Parties Disagree

- k. Should Hydro's wholesale rates to NP include both demand and energy charges or should they remain an energy-only rate?
- l. Should Burin Peninsula transmission assets be assigned to common?
- m. Should GNP generation assets be assigned to common?
- n. Was it appropriate to terminate the Interruptible B Program offering to Abitibi Stephenville?
- o. What is the appropriate treatment of NP thermal Generation in Hydro's COS and rates charged to NP (e.g., NP Generation Credit)?
- p. Should the load variation component of the new RSP be eliminated?
- q. Should the hydraulic production and fuel cost variation components of the RSP be separate funds with different timing of passthrough?
- s. Assuming that the load variation component of the RSP is eliminated, should all riders for the fuel cost and hydraulic funds be applied on an equal KWh basis to all customers?
- t. What interest rate should be used with respect to RSP balances?

- u. Should there be demand charges for interruptible power above the Power on Order for industrial customers?
- x. Should Hydro undertake a marginal cost study and file a report with the Board on how rates can be redesigned to better incorporate marginal cost principles, offer rate options for customers, and promote market efficiency?
- bb. Should Hydro be required to commission an independent study of the merits of creating a separate department responsible for service to Isolated Systems?

Agreed to this 3rd day of October, 2003.

For Newfoundland and Labrador Hydro

For Newfoundland Power Inc.²

For the Consumer Advocate

For the Industrial Customers³

John W. Wilson, Mediator

² NP's execution is not an acknowledgement that its generation credit is open for consideration in this hearing.

³ IC takes no position on Issues d, e, f, h, i, y, z or dd.